Audit Report

OFFICE OF THE INSPECTOR GENERAL

MANAGEMENT OF LEASED MODULATORS/DEMODULATORS BY THE AIR MOBILITY COMMAND

Report No. 93-144 | June 30, 1993

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Department of Defense

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Acronyms

AFB	Air Force Base
AFCC	Air Force Communications Command
AFNET	Air Force Integrated Digital Telecommunications Network
AMC	Air Mobility Command
CAPS	Consolidated Aerial Port System
CCSD	Command Communications Service Designator
CONUS	Continental United States
CSA	Communications Service Authorization
DECCO	Defense Commercial Communications Office
DISA	Defense Information Systems Agency
DMM	Digital Mixing Module
GTE	General Telephone and Electronics
NAS	Naval Air Station
RFS	Request For Service
TCO	Telecommunications Certification Office
TSR	Telecommunications Service Request

INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
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ARLINGTON, VIRGINIA 22202-2884

June 30, 1993

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE (FINANCIAL MANAGEMENT AND COMPTROLLER)
DIRECTOR, DEFENSE INFORMATION SYSTEMS AGENCY

SUBJECT: Audit Report on the Management of Leased Modulators/Demodulators by the Air Mobility Command (Report No. 93-144)

We are providing this final report for your information and use. It discusses the management of leased modulators/demodulators associated primarily with the Consolidated Aerial Port System telecommunications network.

A draft of this report was issued on April 27, 1993, to the addressees for comment. A reply to the draft report was provided by the Department of the Air Force on June 14, 1993. The Air Force concurred with the finding and recommendations, partially concurred with the potential monetary benefits, and nonconcurred that conditions disclosed in the report represented a material internal control weakness. For the reasons stated in the Audit Response section in Part II of the report, we believe that our original computation of the potential monetary benefits is in accordance with Chapter 8, DoD 7600.7-M, "Internal Audit Manual" and is realistic. Regarding the internal control weakness, we defer to the judgment of Air Force managers and have revised the report to exclude reference to the internal control weakness as material. A reply was not received from the Defense Information Systems Agency as of June 28, 1993.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. Therefore, we request that the Department of the Air Force reconsider its position on the potential monetary benefits and provide additional comments on this final report. We also request that the Defense Information Systems Agency provide comments, as requested in the draft report, in response to this final report. The comments to this final report should be provided by the addresses by August 30, 1993.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. Robert M. Murrell at (703) 692-2945 (DSN 222-2945) or Mr. Ronald M. Nelson at (703) 692-2888 (DSN 222-2888). Copies of the report will be distributed to the activities listed in Appendix G.

E. R. Jones

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 93-144
Project No. 2RD-0020

June 30, 1993

MANAGEMENT OF LEASED MODULATORS/DEMODULATORS BY THE AIR MOBILITY COMMAND

EXECUTIVE SUMMARY

Introduction. This audit was performed as part of our audit of DoD Management of Leased Modulators/Demodulators. This segment involved reviews at various DoD organizations that utilized the Air Force Air Mobility Command (AMC) Consolidated Aerial Port System telecommunications network.

Objectives. The overall objective of the audit was to evaluate the management of leased modulators/demodulators in the AMC Consolidated Aerial Port System telecommunications network.

Audit Results. The audit showed that AMC communications managers did not prepare documentation required to discontinue payments for modems no longer in service, purchase rather than lease modems, and disconnect circuits that were no longer required. As a result, about $826,000 was spent for equipment no longer in service; about $1.3 million was spent for leased equipment that should have been purchased; and about $70,000 was spent for leased circuits that were no longer required. The audit also showed that at seven military installations, 53.6 percent of telecommunications equipment could not be accounted for and that AMC could not validate its telecommunications equipment inventories.

Internal Controls. The audit identified an internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. The AMC internal control program for the management of communications resources did not establish effective controls to terminate leased and owned telecommunications equipment and services that were no longer in service or were no longer required; to promptly issue documentation required to terminate leased and owned telecommunications equipment and services that were no longer in service or were no longer required; to prevent payments for telecommunications equipment and services that continued to be leased even though requirements had ceased; or to maintain accountability over communications assets. Further, AMC did not effectively implement Air Force and Air Force Communications Command guidance to buy out uneconomical leases for telecommunications equipment. We attributed the lack of controls to the absence of written procedures to implement established DoD, Defense Information Systems Agency, and Air Force regulatory guidance. A description of the internal controls assessed is provided in Part I of the report, and details on the weakness are discussed in the finding in Part II.

Potential Benefits of Audit. If AMC communications managers prepared the required documentation to terminate lease payments, to purchase leased modems, and to disconnect circuits, DoD could realize monetary benefits of about $5.3 million (of which $783,859 was previously reported) during the execution of the FY 1993 through FY 1998 Future Years Defense Program (see Appendix D). Claims against the communications vendor could result in a potential credit to DoD of $826,000 (see Appendix A). Further, implementation of an effective internal control program would result in improved telecommunications management.

Summary of Recommendations. We recommended that AMC initiate documentation required to terminate payments for telecommunications equipment no longer in service, purchase leased modems, and disconnect circuits no longer needed; establish procedures to implement guidance on the management of equipment and services, the buy out of uneconomical leases, and inventories of equipment and services; and, conduct and maintain inventories of all leased and owned equipment and services. We also recommended that AMC submit documentation to the Defense Commercial Communications Office to substantiate a claim against the General Telephone and Electronics (GTE) Federal Systems Corporation and to take action to obtain credit for payments for equipment and services that were not received. Further, we recommended that the Director, Defense Commercial Communications Office, determine the amount of payments made to GTE for the period November 1, 1989, to the termination dates of the leases and file a claim for that amount.

Management Comments. The Department of the Air Force fully concurred with the finding and all recommendations; partially concurred with the potential monetary benefits; and nonconcurred with the material internal control weakness. A complete discussion of management comments and audit responses is provided in Part II of this report, and the complete text of management's comments is in Part IV. The Defense Information Systems Agency did not provide comments on the draft report. The Air Force and the Defense Information Systems Agency are requested to provide comments on the final report by August 30, 1993.

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This report was prepared by the Readiness and Operational Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate (703) 614-6303 (DSN 224-6303).

Part I - Introduction

Background

The Defense Commercial Communications Office (DECCO) is a contracting arm of the Defense Information Systems Agency (DISA). In August 1989, the DECCO awarded a bulk purchase contract to acquire certain telecommunications equipment and services. The contract was awarded to eliminate fragmented procurements of modulators/demodulators and associated telecommunications equipment and services. A modulator/demodulator (modem) is a device that converts digital signals to analog so that they may be transmitted via conventional analog circuits. A modem also converts analog signals to digital so that they may be received by digital terminal equipment or a computer.

The bulk purchase contract is a single vendor requirements contract and is available to communications users within the Continental United States (CONUS), Alaska, and Hawaii. Orders totaling a cumulative amount of $50 million may be placed on the contract. The 5-year contract requires the Codex Corporation to deliver to the DoD community a standard family of modems, other associated equipment, and maintenance options. A DoD customer seeking to procure hardware and maintenance services via the contract must submit a Request for Service (RFS) through the respective Telecommunications Certification Office (TCO). Subsequently, the TCOs must submit a Telecommunications Service Request to DECCO. As the contracting activity, the DECCO is the sole authority for placing orders and making payments against the contract and is responsible for the general administration of the contract.

Objectives

The overall objective of the audit was to evaluate the management of leased modems in the Air Mobility Command (AMC) Consolidated Aerial Port System (CAPS) telecommunications network. Specific audit objectives were to determine whether AMC continues to pay for modems and associated equipment that are no longer in service, whether AMC continues to lease modems and associated equipment that should have been purchased, and whether AMC has established an effective program to provide for the accountability of leased telecommunications equipment. The audit also evaluated AMC internal controls applicable to leasing and purchasing modems.

Scope

During our audit of DoD Management of Leased Modulators/Demodulators, we visited Dover Air Force Base (AFB), Delaware, and the Defense Logistics Agency. During our visit to Dover AFB, we determined that payments were being made for telecommunications equipment that was no longer in service and that equipment associated with the CAPS network was being leased, but should have been purchased. A separate report (Office of the Assistant Inspector General for Auditing, DoD, Report No. 93-021, "Management of Leased Modulators/Demodulators at Dover Air Force Base," November 9, 1992) was issued on the conditions disclosed at Dover AFB. Due to the conditions found during that segment of the audit, we revised the scope of our overall audit to determine whether similar conditions existed at other CONUS DoD Components that utilize the CAPS network managed by AMC.

AMC could not identify all CSA's for leased modems associated with the CAPS network at the 12 military installations utilizing the CAPS network. Therefore, we evaluated 276 AMC CSA's representing all leased modems at those 12 installations. We performed on-site examinations at 8 of AMC's 23 bases and at 4 other military installations (3 Air Force and 1 Navy) within CONUS, Alaska, and Hawaii. The military installations included in our audit are shown in Appendix B. AMC's expenditure for leased telecommunications equipment is about $5.4 million annually. Since our audit evaluated all AMC CSA's associated with the CAPS and other AMC telecommunications networks at the 12 installations, we did not use statistical sampling techniques. For the CSAs evaluated, we extracted data from the technical data base at the Telecommunications Management and Services Office, from procurement office history files at the DECCO, and from circuit history files at the AMC. Also, we conducted physical inventories of the modems and associated telecommunications equipment and interviewed various communications officials at audited sites.

This economy and efficiency audit was made from September through December 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD. Accordingly, the audit included such tests of internal controls as were considered necessary. Activities visited or contacted during the audit are listed in Appendix F.

Internal Controls

In evaluating internal controls, we reviewed the AMC implementation of DoD, DISA, and Air Force regulatory guidance applicable to purchasing or leasing modems and associated telecommunications equipment, and to conducting physical inventories of modems and associated telecommunications equipment. The audit identified an internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive

5010.38. Controls were not effective to prevent payments from being made for leased telecommunications equipment that was no longer in service, to prevent leasing telecommunications equipment that should have been purchased, to prevent payments for circuits no longer required, and to ensure that accurate inventories of telecommunications equipment were maintained. Recommendations 1.a., 1.b., and 1.c., if implemented, will correct the weakness. A copy of this report will be provided to the senior official responsible for internal controls within the Department of the Air Force.

Prior Audits and Other Reviews

IG, DoD. Office of the Assistant Inspector General for Auditing, DoD, Report No. 93-021, "Management of Leased Modulators/Demodulators at Dover Air Force Base", November 9, 1992, states that payments were being made for telecommunications equipment that was no longer in service and that equipment was being leased that should have been purchased. The report recommended that AMC terminate lease payments for 64 modems that were no longer in service and issue an RFS to purchase 6 long-haul modems from the DECCO Bulk Modem Contract. The report states that if the AMC terminated leases and purchased modems, DoD could have realized monetary benefits of about $660,000 and $124,000, respectively, during the execution of the FY 1993 through FY 1998 Future Years Defense Program. Management concurred with the finding and the recommendation, but nonconcurred with the potential monetary benefits totaling about $784,000. Management stated that about $503,000 would be more realistic because the leases would have expired in April 1996 and would not have been renewed.

Air Force. U.S. Air Force Audit Agency Report No. 9066412, "Air Force Use of Communications Service Authorizations to Acquire Telecommunications Equipment and Services," April 27, 1990, states that lease versus purchase analyses were not performed on 179 CSAs associated with Headquarters, Air Force Communications Command; Headquarters, Air Training Command; and 8 other Air Force installations. The report further states that if McClellan AFB purchased equipment instead of leasing, about $1.7 million could be saved over 3 years and that Wurtsmith AFB could save about $59,000 over 5 years if it also purchased equipment instead of leasing. The report recommended that all Air Force major commands perform lease versus purchase analyses before leasing; buy out uneconomical equipment leases; conduct annual physical equipment inventories; and update equipment inventories when equipment is added or deleted. The responsible Air Force activities agreed to implement each recommended action.

Army. U.S. Army Audit Agency Report No. 89-207, "Audit of Leased Communications, Fort Huachuca, Arizona," August 14, 1989, states that Fort Huachuca, Arizona, was leasing communications equipment that could result in savings of about $34,000, if lease versus purchase analyses had been completed. The report recommended that the Commander, U.S. Army Garrison, Fort Huachuca, conduct lease versus purchase analyses before acquiring new

communications equipment; review all existing leases, and report uneconomical leases for buy out; and if uneconomical leases were not approved for buy out using the management fund, then use the Quick Return on Investment Program and the Productivity Enhancing Capital Investment Program to purchase the equipment. The Commander agreed to implement each recommended action.

U.S. Army Audit Agency Report No. 89-203, "Audit of Leased Communications, U.S. Army Soldier Support Center, Fort Benjamin Harrison, Indiana," August 28, 1989, states that economic analyses were not made before equipment was leased or purchased and potential savings of about $375,000 were not realized. The report further states that all uneconomical leases were not identified and that the wrong method was used to analyze equipment cost. The report recommended that the Commander, U.S. Army 7th Signal Command, and the Commander, U.S. Army Soldier Support Center, recompute the lease versus purchase analysis using correct lease costs and submit the analysis to the U.S. Army Information Systems Command for the buy out of uneconomical leases; develop procedures to require an economic analysis before telecommunications equipment is leased or purchased; and identify all leases that were not analyzed properly or not analyzed at all, and submit the analyses to the U.S. Army Information Systems Command for the buy out of the leases. The Commander, U.S. Army 7th Signal Command and the Commander, U.S. Army Soldier Support Center agreed to implement each recommended action.

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Part II - Finding and Recommendations

Management of Telecommunications Equipment

Telecommunications equipment and services pertaining primarily to the CAPS network were not effectively managed. The AMC continued to pay for equipment no longer in service; to lease equipment that should have been purchased; and to retain in service telecommunications circuits that were no longer required. These conditions occurred because Request for Service documentation was not issued to terminate lease payments, to purchase leased equipment, or to disconnect circuits no longer required. Additionally, Air Force guidance to buy out uneconomical leases was not effectively implemented, procedures were not established to implement DoD guidance to conduct physical inventories, and complete and accurate inventories of modems and associated telecommunications equipment were not conducted. As a result, about $826,000 was paid for equipment no longer in service; about $1.3 million was spent to lease equipment that should have been purchased; and, about $70,000 was spent for leased circuits that were no longer required. Further, telecommunications equipment could not be accounted for. Monetary benefits of about $5.3 million (of which $783,859 was previously reported) will be realized during the execution of the FY 1993 through FY 1998 Future Years Defense Program if actions are taken to terminate leases for equipment no longer in service, to buy out uneconomical leases, and to disconnect unneeded circuits in the CAPS and other telecommunications networks.

Background

In March 1988, the Department of the Air Force requested that major commands determine the funds required in FYs 1988, 1989, and 1990 (later revised to FYs 1989 and 1990) to buy out or replace leased telecommunications equipment. The purpose of the request was to initiate an Air Force-wide buy-out program. Headquarters, Air Force Communications Command (AFCC), implemented the Air Force-wide buy-out program in an April 17, 1989, memorandum, "Buy Out of Uneconomical Leases of Telecommunications Equipment," stating that the major commands should actively search for candidates for the program.

The AFCC memorandum also identified specific regulations, instructions, and worksheets to be used for preparing a summary of leases to be converted to purchases and requested that the major commands provide Headquarters, AFCC, with a plan to buy out uneconomical leases. Each major command was required to provide a list of leased telecommunications equipment targeted for buy out or replacement. The list was also to include projected purchase dates of equipment, funds required to lease equipment, and potential life-cycle cost benefits to be realized from the buy out. On May 1, 1989, Headquarters, AMC,

issued a memorandum, "Buy Out of Uneconomical Leases of Telecommunications Equipment," directing unit commanders to maximize the use of the buy-out program for uneconomical equipment leases. Headquarters, AMC, requested that unit commanders determine their equipment lease posture, prepare a summary of leases to be converted to purchases, and recommend candidates for buy out.

DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," December 5, 1991, requires that DoD Components discontinue telecommunications equipment or services for which a bona fide need no longer exists. Defense Information Systems Agency (DISA) Circular 310-130-1 (the Circular), "Submission of Telecommunications Service Requests," June 4, 1990, provides guidance on the preparation and submission of the Request for Service (RFS) and subsequent Telecommunications Service Request (TSR). Further, the Circular discusses the disposition of telecommunications facilities (for example, equipment), stating that when facilities are no longer required, they will be reported through established Telecommunications Certification Office channels to the appropriate DISA action agency for discontinuation. DoD Directive 4640.13 also requires that DoD Components maintain an inventory data base of base telecommunications equipment and services and conduct complete physical inventories of all base telecommunications equipment and services.

Termination of Payments

As of February 1990, Air Force and Navy personnel had purchased 303 limited-distance modems and associated equipment used to support the AMC Consolidated Aerial Port System (CAPS) telecommunication network at Charleston, Dover, McGuire, Norton, Scott, and Travis AFBs, and at Naval Air Station (NAS), Norfolk. The purchased equipment replaced equipment leased from the vendor. However, at these 7 installations and at Headquarters, AMC, documentation was not processed to discontinue lease payments for equipment no longer in service.

General Telephone and Electronics (GTE) Federal Systems Corporation (formerly Continental Telephone Company Federal Systems) is the primary contractor for telecommunications equipment used on the CAPS network. Communications managers at the bases told us that GTE had been notified that its leased equipment had been disconnected and was ready for pickup. In a May 3, 1989, memorandum, GTE confirmed that it had been notified that the Air Force would replace the GTE limited-distance modems at McGuire AFB with Government-purchased equipment. Attachments to the memorandum identified the same type of equipment at Charleston, Dover, and Scott AFBs and at NAS, Norfolk. On February 8, 1990, Headquarters, Twenty-First Air Force, notified GTE that its equipment was no longer in use at Dover AFB; McGuire AFB; and NAS, Norfolk, and that it was ready for pickup. GTE was provided Air Force points of contact and a list of each modem by type, serial number, circuit number, and pickup location.

After the replacement of the GTE limited-distance leased modems and associated equipment with Government-purchased equipment, some unused GTE equipment remained at the bases and was stored, in some instances, for over 2 years. In other instances, equipment either was shipped to GTE or was picked up by GTE personnel. Air Force follow-up with GTE was not complete or effective. GTE had not adjusted the lease charges on billings for the disconnected equipment. Further, because AMC did not issue the required RFS documentation, which would have allowed for the issuance of the TSRs to terminate lease payments, GTE continued to bill the DoD, and the Defense Commercial Communications Office (DECCO) continued to pay the bills for services not rendered.

We estimated that about $826,132 was needlessly spent for 297 limited-distance modems and associated equipment items that were no longer in service for the period November 1989 through July 1992. Since GTE did not acknowledge the disconnection of its equipment and continued to bill for services not rendered, we believe that DECCO should determine the amount of payments made for the period November 1989 to the termination dates of the leases and a claim should be pursued to recover the improper payments. Further, prompt issuance of RFSs by AMC to terminate payments for that equipment would result in future annual savings of $343,344. Appendix A identifies the items no longer in service, the extent of improper payments and the annual monetary benefits to be realized by terminating the payments.

Purchase of Leased Modems

At the 12 military installations audited, AMC continued to lease long-haul modems and associated telecommunications equipment that should have been purchased. In May 1989, to implement the AFCC buy-out program, Headquarters, AMC, requested unit commanders to buy out all uneconomical long-haul telecommunications equipment on existing leases. However, for leased long-haul modems on the CAPS network, AMC communications officials neither actively searched for buy-out candidates for the AFCC program nor conducted lease versus purchase analyses for existing equipment to ensure that the buy out of uneconomical equipment leases was fully implemented. Based on the May 1989 AMC memorandum, the actions to buy out uneconomical leases on the CAPS network should have been finalized by October 1, 1989.

As of July 31, 1992, the Air Force TCO had approved TSRs, associated with 14 of the 276 CSAs we reviewed, to terminate leases and purchase leased long-haul modems. However, as of that date, no actions had been completed and payments continued for all 276 CSAs. AMC communications officials stated that since the Air Force Integrated Digital Telecommunications Network (AFNET) program was being implemented, AFCC would provide purchased modems for circuits associated with AFNET. However, AMC could not provide an approved AFNET implementation plan or timetable specifically for the procurement of leased equipment associated with the CAPS network nor

assure us that AFNET circuits would be available to accommodate CAPS requirements at each installation served. AMC's overreliance on the AFNET implementation goals proved to be costly.

In our opinion, the AFNET program does not preclude AMC communications officials from implementing an immediate effort to purchase rather than lease equipment. In waiting for the implementation of AFNET, AMC continued to incur needless expense to lease equipment that could have been readily purchased. For the 12 installations we audited, we conducted a lease versus purchase analysis and estimated that AMC has unnecessarily spent $1,308,820 from October 1, 1989, through July 31, 1992, for 228 long-haul modems and other associated equipment items on the CAPS and telecommunications networks. Purchase of that equipment would result in an annual savings of $450,864 and first year savings of $342,228 (see Appendix B), with pay-back periods ranging from 1.7 months to 7.5 months.

Circuits No Longer Required

At three military installations, Andrews, Elmendorf, and McClellan AFBs, AMC continued to lease circuits that were unneeded or nonoperational. AMC was paying conditioning, special access, and mileage charges of $945 a month for a circuit at Andrews AFB that was no longer needed. AMC had been paying that amount for 40 months, spending a total of $37,800 for a circuit that should have been terminated. The circuit connected the Presidential hanger, which is no longer in use at Andrews AFB, with the Pentagon. Further, communications managers at Andrews AFB did not notify Headquarters, AMC, that the circuit was no longer required, and an RFS was not submitted to terminate lease payments. Therefore, Chesapeake & Potomac Telephone Company of Virginia continued to bill the DoD, and the DECCO continued to pay the bills due to the absence of an AMC RFS and subsequent AFCC TSR to discontinue the lease. Site visits by AMC communications officials to review, validate, and inventory its telecommunications equipment could have prevented this costly oversight.

AMC was paying mileage and service charges of $1,354 a month for a circuit that was no longer operational at Elmendorf and McClellan AFBs. AMC had paid that amount for 24 months, spending a total of $32,496 for a circuit that should have been terminated. The circuit was routed from Elmendorf AFB to McClellan AFB then to Scott AFB and was used to support the Military Airlift Integrated Reporting System and the Airlift Information Management System. Communications managers at the bases notified AMC communications officials, prior to our audit, that the circuit was nonoperational and not required.

Since AMC communications officials did not prepare the RFSs to disconnect the circuits discussed above, $70,296 was unnecessarily spent for circuits that were no longer required. Termination of those circuits would result in an annual savings of $27,588 (see Appendix C).

Telecommunications Equipment Inventories

We extracted inventory-of-service lists from the DECCO financial data base for leased modems and other equipment associated with the CAPS and other communications networks. At the 12 military installations audited, communications managers could only partially validate the communications equipment inventories. We conducted inventories of 485 equipment items at 7 military installations (Charleston, Dover, McChord, McClellan, McGuire, Scott, and Travis AFBs), and were unable to locate 260 (53.6 percent) equipment items. At the remaining 5 military installations (Andrews, Elmendorf, Hickam, and Norton AFBs, and NAS, Norfolk), we conducted inventories of 16 equipment items and located all items.

However, at four bases, complete inventory lists were not provided to us for examination. Andrews AFB communications managers were unable to provide an inventory list, while communications managers at Elmendorf, Scott, and Travis AFBs were able to provide only partial or incomplete inventory lists. Therefore, to conduct the inventories at those bases, communications managers relied on our inventory lists to search for the equipment.

At the 12 military installations, communications managers compared the inventories provided by Headquarters, AMC, to communications equipment files maintained at each base. Communications managers at the 12 bases erroneously believed that comparing one file to another was all that was necessary to validate the accuracy of the equipment inventories. An accurate validation of inventory records requires that a physical inventory be conducted to verify both the identification and existence of equipment items. The communications managers at the bases had not conducted physical inventories of communications equipment because they had not been tasked by Headquarters, AMC, to do so. The communications managers stated that guidance on conducting inventories of communications equipment did not exist and that they were unaware of Air Force procedures on how to conduct complete and accurate inventories of communications equipment.

Further, AMC communications officials have not conducted site visits to military installations to conduct inventories and update communications equipment records. The officials stated that AMC policy prevents Headquarters, AMC, communications officials from making "staff assistance" visits except when requested by base officials. They also stated that AMC does not have travel funds budgeted to conduct site visits to various military installations that utilize the CAPS and other communications networks and that a program would need to be established by Headquarters, AMC, to conduct site visits to account for its telecommunications equipment. Ineffective inventory management and wasted resources dictate that AMC develop a program to establish AMC site visits for ensuring that accurate inventory records are maintained and that inventories of all leased and owned communications equipment are made at least once every 2 years.

Management Control

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, guides DoD Components in establishing internal control programs. DoD Components should implement a comprehensive system of internal management controls to provide reasonable assurance that assets are safeguarded against waste, loss, unauthorized use, and misappropriation. An internal control program should also prevent mismanagement and correct specific weaknesses in a timely manner.

The internal management control program at Headquarters, .AMC, for the management of communications resources did not establish effective controls:

o to identify the need for termination of leased and owned telecommunications equipment and services that were no longer in service or were no longer required;

o to issue timely RFS documentation to terminate leased and owned telecommunications equipment and services that were no longer in service or were no longer required;

o to prevent erroneous payments for telecommunications equipment and services that continued to be leased even though requirements had ceased; or

o to maintain accountability over communications assets.

We attributed the lack of controls to the absence of written procedures to implement established DoD, DISA, and Air Force regulatory guidance.

Conclusion

Our audit at 8 of AMC's 23 bases that utilized the CAPS network showed that telecommunications equipment and services associated with the CAPS and other telecommunications networks were not effectively managed at the bases audited. Unneeded expenditures of about $2.2 million were made from October 1989 through July 1992. Our report concerning the CAPS network at Dover AFB previously reported savings of $783,859. If responsive action to correct the discrepancies identified in this report are taken, DoD could realize an additional savings of $4,474,591 (a total of about $5.3 million) during the execution of the FY 1993 through FY 1998 Future Years Defense Program. Appendix D provides the details of our estimate of future monetary benefits.

Recommendations, Management Comments, and Audit Response

1. We recommend that the Commander, Air Mobility Command:

a. Prepare the required Requests for Service to terminate lease payments for equipment no longer in service, to purchase equipment instead of leasing, and to disconnect circuits that are no longer required, as identified by the Communications Service Authorizations listed in Appendixes A, B, and C.

b. Establish procedures to implement DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services"; Defense Communications Agency Circular 310-130-1, "Submission of Telecommunications Service Requests"; and Air Force Communications Command policy, "Buy Out of Uneconomical Leases of Telecommunications Equipment."

c. Conduct and maintain inventories of all leased and owned telecommunications equipment and services in accordance with DoD Directive 4640.13, "Management of Base and Long-Haul Telecommunications Equipment and Services," and Air Mobility Command inventory procedures.

d. Request that the Director, Defense Commercial Communications Office, file a claim against the General Telephone and Electronics Federal Systems Corporation for Communications Service Authorizations identified in Appendix A, to obtain credit for payments for unnecessary telecommunications equipment and service charges.

2. We recommend that the Director, Defense Commercial Communications Office, determine the amount of payments made to the General Telephone and Electronics Federal Systems Corporation for Communications Service Authorizations identified in Appendix A for the period November 1, 1989, to the termination dates of the leases and file a claim against the General Telephone and Electronics Federal Systems Corporation to obtain credit for payments for unnecessary telecommunications equipment and service charges.

Air Force Comments. The Department of the Air Force provided comments (see Part IV) on June 14, 1993, in response to a draft of this report. Management concurred with the finding and Recommendations 1.a., 1.b., 1.c., and 1.d., and provided estimated completion dates for corrective actions. Management stated that AMC has prepared and submitted all RFSs to terminate lease payments for equipment no longer in service, to replace leased equipment with purchased equipment, and to disconnect circuits no longer required. Additionally, AMC produced a list of AMC leased and purchased communications equipment and its locations. Each base was given the list and was required to conduct a physical inventory to determine whether the leased equipment was still in place. Further, before implementation of new AMC requirements for leased equipment, an economic analysis will be completed. Management also stated that AMC, as part of an Air Force-wide effort, is

conducting an inventory and review and revalidation of long-haul telecommunications services and equipment. The AMC requested in a March 25, 1993, letter that DECCO file a claim against the GTE Federal Systems Corporation to pursue the estimated refund of $826,132.

The Air Force nonconcurred with the potential monetary benefits, stating that the $4,474,591 potential monetary benefits are based on the supposition that the leases would have continued until 1998. AMC's internal management controls would have identified expiring leases. The AMC or the Air Force TCO would have identified the circuits as candidates for the AFNET and would have replaced modems with those provided by AFNET. Further, the Air Force TCO ongoing program to terminate expiring leases would have identified the leases to AMC 1 year before expiration and then every other month until 4 months before expiration. Management concluded that, given those conditions, the leases would have been terminated on or before 1996 and that a potential monetary benefit of $2,069,806 is more realistic.

Lastly, management nonconcurred with characterizing the problems identified as a material internal control weakness. The major problem at AMC bases was caused by a "fragmented requirement/authorization/approval process" for telecommu-nications assets rather than the lack of internal controls within AMC. Further, the AFCC and Air Force regulations governing that process were focused more on the communications unit rather than on the major command, that is, "units submitting a start/stop feeder RFS to AMC." Also, the Air Force-wide inventory system did not provide for reporting on modems.

DISA Comments. As of June 28, 1993, DISA had not provided comments on the draft report.

Audit Response. The Air Force comments were responsive to the finding and the recommendations. Regarding the potential monetary benefits, when leases expire, there is no assurance that billings and payments would stop. CSAs for telecommunications equipment leases are issued by DECCO only when required TSRs are received from the TCO. After the leases expire, the CSAs automatically renew for 30-day increments almost indefinitely or until another TSR for termination is received from the TCO. DECCO does not have the authority to terminate a telecommunications equipment lease. Therefore, until a TSR for termination is received by DECCO, the Air Force will continue to pay for service.

In prior audits, we found repeated cases in which vendors continued to bill for telecommunications services and DoD continued to pay the bills either when there was no valid requirement for the service or when the telecommunications equipment was no longer at the location. Consequently, DoD continued to expend funds unnecessarily because communications managers had not provided RFSs and subsequent TSRs to DECCO for lease terminations. Accordingly, we believe that the potential monetary benefits of $4,474,591 are realistic.

Regarding the categorization of the internal control weakness, we defer to the judgement of Air Force managers and have revised the report to exclude reference to the internal control weakness as material.

We ask that the Air Force reconsider its position on the monetary benefits and provide additional comments on the final report. We also ask that DISA provide complete comments, in accordance with the request in our draft report, in response to this final report. The comments should be provided by August 30, 1993

Part III - Additional Information

Appendix A. Equipment No Longer In Service

Installation	CSA [1]	Modems [2]	Other Equipment	Period Not In Service [3]	Monthly Recurring Leased Costs [4]	Unnecessary Expenditures	Annual Savings To DoD By Termination of Payments
Charleston AFB	AMSC Q 08979 WU	40	2 DMM [5]	30 months	$3,328		
	AMSC D 16154 WU	22	2 DMM	30 months	1,864	$155,760	$ 62,304
Dover AFB	AMSC D 16111 WU	42	2 DMM	30 months	6,891		
	AMSC D 16179 WU	18	2 DMM	30 months	1,528	252,570	101,028
McGuire AFB	AMSC D 16441 WU	42		30 months	3,534		
	AMSC D 16600 WU	24		30 months	2,012	166,380	66,552
Norfolk NAS	AMSC D 16443 WU	17	1 DMM	31 months	1,684	52,204	20,208
Norton AFB	AMSC D 16132 WU	5	1 omnimux [6]	0 months	696	0	8,352
Scott AFB	AMSC Q 08979 WU	78		30 months	6,351		
	AMSC D 16118 WU	1		12 months	275	193,830	79,512
Travis AFB	AMSC D 16118 WU	1	3 DMM	12 months	449	5,388	5,388
Totals						$826,132 [7]	$343,344 [8]

See footnotes on the next page.

Footnotes:

1 Communications Service Authorization - identifies the specific contract with the vendor for each service.

2 Modulators/Demodulators.

3 The time period during which equipment was not being utilized, but was paid for by the Defense Commercial Communications Office.

4 The costs of leased telecommunications services are paid by the Defense Commercial Communications Office to communications vendors. The costs shown on this schedule are the net costs to the Government.

5 Digital Mixing Module is a digital signal mixing device.

6 Omnimux is a multiplexer for 8 channels (4 synchronous and 4 asynchronous).

7 Using the monthly recurring leased costs for equipment no longer in service, we applied those costs to the period of time that the equipment was not in service. This amount was needlessly paid by the Air Mobility Command for services that were not received and represents a waste of resources. This amount also represents a potential credit from the vendor.

8 Using the monthly recurring leased costs for equipment no longer in service, we multiplied those costs by 12 to determine the annual amount being paid for services not received. This total represents the amount that would be saved annually by terminating payments for the equipment.

Appendix B. Equipment That Should Have Been Purchased

Installation	CSA [1]	Modems [2]	Elapsed Lease Period [3]	Monthly Recurring Leased Costs [4]	Previous Equipment Purchase Costs [5]	Current Equipment Purchase Costs [6]	Annual Recurring Costs	Unnecessary Expenditures	First Year Savings To DoD By Purchase of Equipment	Annual Savings To DoD By Purchase of Equipment
Andrews AFB	AMSC D 16116 WU	1	34 Months	$ 275	$ 774	$ 740	$ 12	$ 8,576	$ 2,548	$ 3,288
Charleston AFB	AMSC D 16130 WU	6 [7]	34 Months	971	3,121	740 [8]	12	172,829	47,940	63,912
	AMSC D 16154 WU	5	34 Months	571	3,614	3,172	156			
	AMSC D 16372 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16375 WU	2	34 Months	188	1,577	1,305	96			
	AMSC D 16376 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16380 WU	2	34 Months	400	1,577	1,305	96			
	AMSC D 16383 WU	2	34 Months	400	1,577	1,305	96			
	AMSC D 16386 WU	3 [9]	34 Months	608	1,549	1,481	24			
	AMSC D 16390 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16391 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16404 WU	2 [9]	34 Months	333	774	740	12			
Dover AFB	AMSC D 16131 WU	6	34 Months	846	4,545	4,001	192	58,521	16,149	23,112
	AMSC D 16111 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16179 WU	2	34 Months	550	1,549	1,481	24			
Elemendorf AFB	AMSC D 15009 WU	1	34 Months	244	774	740	12	7,522	2,176	2,916
Hickam AFB	AMSC D 15006 WU	1	34 Months	445	774	740	12	14,356	4,588	5,328
McChord AFB	AMSC D 16427 WU	1	34 Months	275	774	740	12	50,751	11,039	14,832
	AMSC D 16133 WU	6 [7]	34 Months	971	3,359	3,053	108			
	AMSC D 16448 WU	2 [9]	34 Months	391	774	0 [10]	0			
McClellan AFB	AMSC D 16272 WU	2	34 Months	166	965	0 [11]	0	15,595	2,548	3,288
	AMSC D 16356 WU	1	34 Months	275	774	740	12			
	AMSC D 16243 WU	1	34 Months	83	482	0 [12]	0			
McGuire AFB	AMSC D 16600 WU	1	34 Months	275	774	740	12	275,012	66,974	84,216
	AMSC D 16441 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16353 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16349 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16346 WU	2	34 Months	550	1,549	1,481	24			

See footnotes at end of table.

Appendix B. Equipment That Should Have Been Purchased

Installation	CSA [1]	Modems [2]	Elapsed Lease Period [3]	Monthly Recurring Leased Costs [4]	Previous Equipment Purchase Costs [5]	Current Equipment Purchase Costs [6]	Annual Recurring Costs	Unnecessary Expenditures	First Year Savings To DoD By Purchase of Equipment	Annual Savings To DoD By Purchase of Equipment
McGuire AFB	AMSC D 16343 WU	2	34 Months	$ 550	$1,549	$1,481	$ 24			
	AMSC D 16340 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16337 WU	2	34 Months	550	1,549	1,481	24			
	AMSC D 16334 WU	2	34 Months	400	1,577	1,305	96			
	AMSC D 16331 WU	2	34 Months	400	1,577	1,305	96			
	AMSC D 16328 WU	2	34 Months	400	1,577	1,305	96			
	AMSC D 16134 WU	12 [7]	34 Months	1,475	6,949	740 [13]	12			
	AMSC D 16110 WU	9	34 Months	867	5,230	740 [14]	12			
	AMSC D 16108 WU	12 [7]	34 Months	1,465	6,949	740 [15]	12			
Norfolk NAS	AMSC D 16443 WU	1	34 Months	275	774	740	12	$ 17,152	$ 5,096	$ 6,576
	AMSC D 16442 WU	1	34 Months	275	774	740	12			
Norton AFB	AMSC D 16132 WU	5 [7]	34 Months	971	3,359	740 [14]	12	42,046	5,963	8,184
	AMSC D 00687 WU	2	34 Months	410	1,549	1,481	24			
Scott AFB	AMSC D 16132 WU	2 [7]	34 Months	675	1,429	1,395	12	485,356	136,494	178,104
	AMSC D 16134 WU	2 [7]	34 Months	675	1,429	1,395	12			
	AMSC D 16133 WU	2 [7]	34 Months	675	1,429	1,395	12			
	AMSC D 16117 WU	4	34 Months	716	2,514	2,310	72			
	AMSC D 16118 WU	1	22 Months	275	762	0 [16]	0			
	AMSC D 15006 WU	1	34 Months	275	774	740	12			
	AMSC D 15009 WU	1	34 Months	275	774	740	12			
	AMSC D 16102 WU	1	34 Months	275	774	740	12			
	AMSC D 16108 WU	2 [7]	34 Months	725	1,429	1,395	12			
	AMSC D 16110 WU	1	34 Months	275	774	740	12			
	AMSC D 16113 WU	4	34 Months	716	2,514	2,310	72			
	AMSC D 16114 WU [17]	6	34 Months	926	4,702	4,090	216			
	AMSC D 16115 WU	4	34 Months	716	2,514	2,310	72			
	AMSC D 16116 WU	1	34 Months	275	774	740	12			
	AMSC D 16130 WU	2 [7]	34 Months	675	1,429	1,395	12			

See footnotes at end of table.

Appendix B. Equipment That Should Have Been Purchased

Installation	CSA [1]	Modems [2]	Elapsed Lease Period [3]	Monthly Recurring Leased Costs [4]	Previous Equipment Purchase Costs [5]	Current Equipment Purchase Costs [6]	Annual Recurring Costs	Unnecessary Expenditures	First Year Savings To DoD By Purchase of Equipment	Annual Savings To DoD By Purchase of Equipment
Scott AFB	AMSC D 16154 WU	1	34 Months	$ 275	$ 774	$ 740	$ 12			
	AMSC D 16356 WU	1	34 Months	275	774	740	12			
	AMSC D 16397 WU	5	34 Months	786	2,931	2,693	84			
	AMSC D 16404 WU	1	34 Months	275	774	740	12			
	AMSC D 16442 WU	1	34 Months	275	774	740	12			
	AMSC D 16443 WU	1	34 Months	275	774	740	12			
	AMSC D 16427 WU	1	34 Months	275	774	740	12			
	AMSC D 16428 WU [18]	2	34 Months	166	965	0 [19]	0			
	AMSC D 16112 WU	4	34 Months	699	2,514	2,310	72			
	AMSC D 16600 WU	3	34 Months	825	2,323	2,221	36			
	AMSC D 16280 WU [20]	2	34 Months	550	1,549	1,481	24			
	AMSC D 00430 WU	1	34 Months	151	788	652	48			
	AMSC D 16111 WU	2	34 Months	550	1,549	1,481	24			
	ABI Q 61845	2	34 Months	260	1,549	1,481	24			
	AMSC D 16106 WU	2 [7]	34 Months	735	1,429	1,395	12			
	AMSC D 16135 WU	3 [7]	34 Months	844	1,863	1,761	36			
	AMSC D 16448 WU	1	34 Months	275	774	0 [10]	0			
	ABI D 51388	2	34 Months	138	897	0 [21]	0			
Travis AFB	AMSC D 00980 WU	1	34 Months	415	828	794	12	$ 161,104	$ 40,713	$ 57,108
	AMSC D 16102 WU	3	34 Months	423	1,739	1,569	60			
	AMSC D 16106 WU	10 [7]	34 Months	1,327	5,240	4,662	204			
	AMSC D 16109 WU	5	34 Months	571	2,704	2,398	108			
	AMSC D 16118 WU	4 [22]	22 Months	449	762	0 [16]	0			
	AMSC D 16135 WU	10 [7]	34 Months	1,362	5,240	4,662	204			
	AMSC D 16223 WU	2	34 Months	166	965	829	48			
	AMSC D 16255 WU	3	34 Months	236	1,447	0 [21]	0			
	AMSC D 16445 WU	2	34 Months	550	1,549	1,481	24			
Totals						$108,636	$3,204	$1,308,820 [23]	$342,228 [24]	$450,864 [25]

See footnotes at end of table.

Footnotes:

1 Communications Service Authorization - identifies the specific contract with the vendor for each service.

2 Modulators/Demodulators.

3 The elapsed lease period is from October 1, 1989, through the cutoff date of the audit universe, July 31, 1992. Resources were wasted during the elapsed lease period. The equipment should have been purchased by October 1, 1989.

4 The costs of leased telecommunications services are paid by the Defense Commercial Communications Office to communication vendors. The costs shown on this schedule are the net costs to the Government.

5 These costs represent the total amount that would have been paid during the elapsed lease period if the equipment had been purchased by October 1, 1989. These costs include the nonrecurring purchase costs and the annual recurring maintenance costs that would have been paid over the elapsed lease period.

6 These costs represent the first-year amount that would have been paid if the equipment was purchased on August 1, 1992. These costs include the nonrecurring purchase costs.

7 This figure includes one omnimux, which is a multiplexer for 8 channels (4 synchronous and 4 asynchronous).

8 We calculated the costs for only one modem and omnimux because termination actions were taken on the other equipment before our audit cutoff date. The remaining modem and omnimux had a monthly recurring lease cost of $675.

9 This figure includes one digital mixing module, which is a digital signal mixing device.

10 Current equipment purchase costs were not calculated for this CSA because action to purchase the equipment was initiated in December 1991. Equipment lease payments continued as of July 31, 1992.

11 Current equipment purchase costs were not calculated for this CSA because action to replace the equipment with AFNET purchased equipment and to discontinue the CSA was initiated in January 1992. Equipment lease payments continued as of July 31, 1992.

12 Current equipment purchase costs were not calculated for this CSA because action to replace the equipment with AFNET purchased equipment and to discontinue the CSA was initiated in December 1991. Equipment lease payments continued as of July 31, 1992.

13 We calculated the costs for only one modem and omnimux because termination actions were taken on the other equipment before our audit cutoff date. The remaining modem and omnimux had a monthly recurring lease cost of $735.

14 We calculated the costs for only one modem because termination actions were taken on the other equipment before our audit cutoff date. The remaining modem had a monthly recurring lease cost of $275.

15 We calculated the costs for only one modem and omnimux because termination actions were taken on the other equipment before our audit cutoff date. The remaining modem and omnimux had a monthly recurring lease cost of $725.

16 Current equipment purchase costs were not calculated for this CSA because action to purchase the equipment was initiated in August 1991. Equipment lease payments continued as of July 31, 1992.

17 This Communications Service Authorization was funded by Air Force Special Operations Command.

18 This Communications Service Authorization was funded by Air Force Materiel Command.

19 Current equipment purchase costs were not calculated for this CSA because action to purchase the equipment was initiated in May 1992. Equipment lease payments continued as of July 31, 1992.

Footnotes:

20 This Communications Service Authorization was funded by the Air Force Office of Air Reserve.

21 Current equipment purchase costs were not calculated for this CSA because action to replace the equipment with AFNET purchased equipment and to discontinue the CSA was initiated in December 1991. Equipment lease payments continued as of July 31, 1992.

22 This figure includes three digital mixing modules, which are digital signal mixing devices.

23 The monthly recurring leased costs for each CSA were applied to the elapsed lease period. From that subtotal, the previous equipment purchase costs were subtracted to determine the wasted expenditures for each CSA. This figure is the total amount needlessly paid by the Air Mobility Command over the elapsed lease period for the installations cited.

24 Using the monthly recurring leased costs for each CSA projected, we multiplied those costs by 12 to determine the annual amount. From that subtotal, the current equipment purchase costs and annual recurring costs were subtracted to obtain the first year savings to DoD.

25 This total represents the annual savings to DoD by the purchase of equipment. The current equipment purchase cost for each CSA was added to the first year savings to obtain the annual savings for each CSA.

Appendix C. Circuits No Longer Required

CCSD [1]	From	To	CSA [2]	Modems	Other	Period Not In Service	Monthly Recurring Leased Costs [3]	Unnecessary Expenditures	Annual Savings To DoD By Termination of Circuits
JUDGLXEN	Andrews AFB	Pentagon	CPV 41 W 02428	0	Conditioning	40 months	$ 828		
					Special Access		91		
					Mileage		26	$37,800	$11,340
JQADQC26	Elemendorf AFB	McClellan AFB	GCI D 00469	0	Mileage	24 months	1,330	31,920	15,960
JQADQC26	McClellan AFB	Scott AFB	GCI D 00469	0	All items other than mileage	24 months	24	576	288
Totals								$70,296 [4]	$27,588 [5]

Footnotes:

1 Command Communications Service Designator. A unique identifier for each single service, including single-channel circuits, multichannel trunk circuits, and interswitch trunk circuits.

2 Communications Service Authorization, which identifies the specific contract with the vendor for each service.

3 The costs of leased telecommunication services are paid by the Defense Commercial Communications Office to communications vendors. The costs shown on this schedule are the net costs to the Government.

4 Using the monthly recurring leased costs for circuits no longer required, we applied those costs to the period of time that the circuits were no longer required. This amount was needlessly paid by the Air Mobility Command for the installations cited and represents a waste of resources.

5 Using the monthly recurring leased costs for circuits no longer required, we multiplied those costs by 12 to determine the annual amount being paid for circuits that were not utilized. This total represents the amount that would be saved annually by termination of payments for the circuits.

Appendix D: Future Years Defense Program Budgetary Impact

Program	Element No.	Element Title	FY 1993	FY 1994	FY 1995	FY 1996	FY 1997	FY 1998	6-Year Total
Recurring Savings (Operation and Maintenance)									
Intelligence and Communications	0303126F	Long-Haul Communications	$343,344	$354,640	$366,591	$379,092	$392,436	$406,250	$2,242,353[1]
Intelligence and Communications	0303126F	Long-Haul Communications	454,068	469,007	484,813	501,345	518,992	537,261	2,965,486[2]
Intelligence and Communications	0303126F	Long-Haul Communications	27,588	28,496	29,456	30,460	31,532	32,642	180,174[3]
Total Recurring Savings			$825,000	$852,143	$880,860	$910,897	$942,960	$976,153	$5,388,013
Recurring Costs (Operation and Maintenance)									
Intelligence and Communications	0303126F	Long-Haul Communications	(3,204)	(3,309)	(3,421)	(3,538)	(3,663)	(3,792)	(20,927)[4]
Nonrecurring Costs (Operation and Maintenance)									
Intelligence and Communications	0303126F	Long-Haul Communications	(108,636)						(108,636)[5]
Net Recurring Savings (12 installations)			$713,160	$848,834	$877,439	$907,359	$939,297	$972,361	$5,258,450
Less									
Net Recurring Savings - Dover Air Force Base[6]			(115,966)	(124,729)	(128,932)	(133,329)	(138,022)	(142,881)	(783,859)
Total Net Recurring Savings			$597,194	$724,105	$748,507	$774,030	$801,275	$829,480	$4,474,591

Footnotes:

1 Using the FY 1993 recurring cost ($343,344) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring savings (to terminate payment for 297 disconnected leased modems and related equipment) for the Future Years Defense Program at $2,242,353.

2 Using the FY 1993 recurring cost ($454,068) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring savings (to terminate the lease after purchasing 228 modems and related equipment) for the Future Years Defense Program at $2,965,486.

3 Using the FY 1993 recurring cost ($27,588) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring savings (to terminate payment for three leased circuits) for the Future Years Defense Program at $180,174.

4 Using the FY 1993 recurring cost ($3,204) for the base year, we applied the established DoD inflation factors (3.29 percent for FY 1994, 3.37 percent for FY 1995, 3.41 percent for FY 1996, 3.52 percent for FY 1997, and 3.52 percent for FY 1998) for the next 5 fiscal years, calculating the total recurring costs (maintenance cost for 172 modems and related equipment) for the Future Years Defense Program at $20,927.

5 Using the FY 1993 nonrecurring cost ($108,636) for the base year, we calculated the total nonrecurring cost (for the purchase of 172 modems and related equipment) for the Future Years Defense Program at $108,636.

6 The results of audit were reported in Office of the Inspector General for Auditing, DoD, Audit Report No. 93-021, "Management of Leased Modulators/Demodulators at Dover Air Force Base," November 9, 1992. Future Years Defense Program budgetary impact for Dover Air Force Base was presented in that report.

Appendix E. Summary of Potential Benefits Resulting from Audit

Recommendation Reference	Description of Benefit	Amount and/or Type of Benefit
1.a.	Economy and Efficiency and Internal Control. Terminates payments for leased equipment that is no longer in service, purchases equipment instead of leasing, and terminates circuits no longer required.	Recurring savings of $4,474,591 (Funds put to better use). Budget years - FY 1993 through FY 1998. Appropriation - Operation and Maintenance.
1.b.	Internal Control. Implements DoD and Air Force policy.	Nonmonetary.
1.c.	Internal Control. Implements DoD policy.	Nonmonetary.
1.d.	Economy and Efficiency. Provides refunds for telecommunications equipment and services not rendered.	Nonmonetary.
2.	Economy and Efficiency. Provides potential reduction in communications budget as a result of overpayments.	Credit (to be determined*) due for overpayments made from November 1989 to the termination dates of the leases. Appropriation - Operation and Maintenance.

* Monetary Benefits cannot be determined until implementation of Recommendation 2.

Appendix F. Activities Visited or Contacted

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence), Washington, DC

Department of the Navy

Naval Air Station, Norfolk, Norfolk, VA

Department of the Air Force

Headquarters, Air Force Communications Command, Scott Air Force Base, IL
Headquarters, Air Mobility Command, Scott Air Force Base, IL
  Charleston Air Force Base, SC
  Dover Air Force Base, DE
  McChord Air Force Base, WA
  McGuire Air Force Base, NJ
  Norton Air Force Base, CA
  Scott Air Force Base, IL
  Travis Air Force Base, CA
Andrews Air Force Base, MD
Elmendorf Air Force Base, AK
Hickam Air Force Base, HI
McClellan Air Force Base, CA

Defense Agencies

Defense Information Systems Agency, Washington, DC
  Defense Commercial Communications Office,
    Scott Air Force Base, IL
  Telecommunications Management and Services Office,
    Scott Air Force Base, IL

Appendix G. Report Distribution

Office of the Secretary of Defense

Assistant Secretary of Defense for Command, Control, Communications and Intelligence
Comptroller of the Department of Defense
Assistant to the Secretary of Defense for Public Affairs

Department of the Army

Auditor General, U.S. Army Audit Agency

Department of the Navy

Secretary of the Navy
Comptroller of the Navy
Auditor General, Naval Audit Service

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Air Force Audit Agency

Defense Agencies

Defense Contract Audit Agency
Defense Information Systems Agency
  Defense Commercial Communications Office
Inspector General, Defense Intelligence Agency
Defense Logistics Agency
Defense Logistics Studies Information Exchange
Inspector General, National Security Agency

Non-Defense Activities

Office of Management and Budget
U.S. General Accounting Office, National Security and International Affairs Division, Technical Information Center

Non-Defense Activities (cont'd)

Chairman and Ranking Minority Member of Each of the Following Congressional Committees and Subcommittees:

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Select Committee on Intelligence
Senate Committee on Commerce, Science, and Transportation
Senate Subcommittee on Communications, Committee on Commerce, Science, and Transportation
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Subcommittee on Oversight and Investigations, Committee on Armed Services
House Committee on Energy and Commerce
House Subcommittee on Telecommunications and Finance, Committee on Energy and Commerce
House Committee on Government Operations
House Subcommittee on Legislation and National Security, Committee on Government Operations
House Permanent Select Committee on Intelligence

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Part IV - Management Comments

Department of the Air Force

DEPARTMENT OF THE AIR FORCE
HEADQUARTERS UNITED STATES AIR FORCE
WASHINGTON, D.C.

14 June 1993

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING
OFFICE OF THE INSPECTOR GENERAL
DEPARTMENT OF DEFENSE

SUBJECT: DoD(IG) Draft Report, "Management of Leased Modulators/Demodulators at the Air Mobility Command," (Project No. 2RD-0020)
- INFORMATION MEMORANDUM

This is in reply to your memorandum requesting the Assistant Secretary of the Air Force (Financial Management and Comptroller) provide Air Force comments on subject report.

We have reviewed the subject report and concur with the finding and recommendations. We nonconcur, however, with a potential monetary benefit of $4,474,591. Specific comments to recommendations and the PMB are attached. Air Force point of contact is Major Harper, AF/SCMN, DSN 225-6068.

JOSEPH M. NARSAVAGE, Jr., Col, USAF
Director of Mission Systems
DCS/Command, Control,
Communications, and Computers

Attachment:
Comments to Draft Audit Report

Department of the Air Force

Air Force Comments to DoD(IG) Report, "Management of Leased Modulators/Demodulators at Air Mobility Command," (Project No. 2RD-0020)

1. Comments to Recommendations:

a. Reference recommendation 1.a: AMC has prepared and submitted all Requests for Service (RFSs) to terminate lease payments for equipment no longer in service, replace leased equipment with purchased equipment, and disconnect circuits no longer required. AMC will continue to manage the RFSs until all actions are implemented.
Estimated completion date (ECD): 30 Sep 93.

b. Reference recommendation 1.b: Using the DECCO database, AMC produced a listing of AMC leased/purchased communications equipment and its location. Each location was provided a listing and was required to conduct a physical inventory to determine if the leased equipment was still in place. An AMC team visited 21 AF bases from 28 Jul 92 - 4 Aug 92 to lead those bases through a physical inventory of all AMC-funded leased/purchased equipment and circuits. Having completed the 21 AF area inventory, AMC decided to inventory the 22 AF area by correspondence and phone call since it contained considerably less leased communications equipment. A separate review of all AMC circuits was accomplished to determine the additional RFS actions needed to replace leased equipment. The RFSs for all additional candidate circuits have been submitted. All new requirements requesting leased equipment require a completed economic analysis prior to implementation. Recommend this item be closed.

c. Reference recommendation 1.c: AMC, as part of an Air Force-wide effort, is currently conducting an inventory and review and revalidation of long-haul telecommunications services and equipment. This effort is being accomplished using Defense Information Systems Agency (DISA) provided software. DISA provides monthly software updates to keep the AMC database current. The review is conducted every two years as required by DOD Directive 4640.13. Additionally, AMC established a configuration management office (1500 CSGP/SMSC) to track leased/purchased and government/non-government furnished equipment/circuits.
ECD: 30 Sep 93.

d. Reference recommendation 1.d: In a 25 Mar 93 letter addressed to DECCO/RP, the 1500 CSGP/CC requested DECCO file a claim against General Telephone and Electronics Federal Systems Corporation (GTE). DECCO and the 1500 CSGP are working together to pursue the estimated refund of $826,132. ECD: 30 Sep 93.

2. Comments to the Potential Monetary Benefit (PMB):

The PMB is based on the supposition that the leases would have continued until 1998. There are several vehicles through which the leases would have been terminated on or before 1996. First, the internal management controls of Air Mobility Command (AMC) would have identified the expiring leases. Second, AMC or the Air Force Telecommunications Certification Office (AFTCO) would have identified the circuits as candidates for the Air Force Integrated Digital

Telecommunications Network (AFNET), and the modems would have been replaced with AFNET provided modems. Lastly, the AFTCO's ongoing program to terminate expiring leases would have identified the leases to AMC one year prior to expiration and then every other month until four months prior to expiration. Given these conditions, a PMB of $2,069,806 is more realistic.

3. Comments Internal Control Weaknesses:

We disagree with the problems identified as "material internal control weaknesses." The major problem at AMC bases was caused by a fragmented requirement/authorization/approval process for telecommunications assets rather than the lack of internal controls within AMC. The AFCC and Air Force regulations governing this process at the time were focused more on the communications unit rather than the Major Command, i.e., units submitting a start/stop "feeder" RFS to AMC. Furthermore, the Air Force-wide inventory system did not provide for reporting on modems.

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